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Prepared Remarks of Chairwoman Maloney for Subcommittee Hearing on Problem Credit Card Practices Affecting Students

WASHINGTON – Congresswoman Carolyn B. Maloney (D-NY), Chair of the Financial Institutions and Consumer Credit Subcommittee, delivered the following prepared opening remarks at today's subcommittee hearing, *Problem Credit Card Practices Affecting Students*:

"This hearing entitled 'Problem Credit Card Practices Affecting Students' focuses on the issues that arise in the context of credit card marketing to students, especially college students. I welcome the witnesses and thank them for their testimony.

"This hearing is the outgrowth of response to our comprehensive credit card reform bill, The Credit Cardholders' Bill of Rights. At our Credit Card Roundtable last year, and in later discussions, it became clear that many issuers, consumer advocates, and Members share a special concern with students' use of credit cards. As new entrants to credit, students seem particularly vulnerable.

"As some of you will recall, in the late 1990s, credit card marketing on campus became the subject of press reports and controversy. At the request of Congresswoman Slaughter, Congressman John Duncan, and Congressman Kanjorski, the GAO undertook a 2001 study of college students and credit cards. The GAO concluded that while credit cards offered students many advantages, there were grounds for concern that college students were more likely than other credit card users to end up with high debts.

"As the GAO report found, credit card issuers market intensively to college students. This is not surprising: students represent new customers who live bunched together and are thus cost-effective to reach. Students want and often need credit, but may not realize all the consequences of applying for or getting a credit card.

"In some cases, schools facilitated the issuers' efforts to market cards to students. In his 2000 book 'Credit Card Nation,' Professor Robert Manning of the University of Rochester documented arrangements between universities and colleges and issuers under which the schools received money from the issuers for the right to market credit cards on campus to the students. Manning found that these agreements resulted in payments to the 300 largest universities of some $1 billion a year.

"About 18 states have since passed laws restricting or regulating on campus marketing by issuers. But the issue is not resolved. This spring, New York Attorney General Andrew Cuomo announced that his office was conducting a nationwide investigation into whether credit card marketers have offered payments or other incentives to colleges in exchange for exclusive access to the institutions' students.

"On-campus marketing to students often involves offering a reward for applying for a card. In a March 2008 survey[1], USPIRG listed T-shirts, food, sports toys, caps, mugs, and soda as commonly offered 'gifts.'

[1] "The Campus Credit Card Trap: A Survey of College Students and Credit Card Marketing," US PRIG, March 2008

“Seven years after the GAO report, major issuers have introduced a number of important policy changes to address the special problems of students and credit cards. For example, American Express says that their ‘Blue for Students’ Card has more stringent limits on the size of credit lines than the normal Blue Card, and that they do not actively market to students on campus or otherwise. Citi’s Platinum Select mtvU card was acknowledged by *Consumer Action* for rewarding students based on responsible credit behavior and was a top pick for best student credit cards as reported in *Smartmoney.com* in August 2006. Bank of America says it caps students’ available credit at $2500, and does not raise students’ interest rates retroactively for any reason. I applaud these and similar efforts, which represent best practices consistent with the Gold Standard principles for voluntary action that resulted from the Credit Card Roundtable I convened last year.

“But the question is: Are voluntary efforts enough? Will the force of competition drive those who want to move to best practices back to something less? And ultimately, what is the best way to ensure that students become responsible users of credit?

“In fact, studies since the 2001 GAO report show that credit card debt held by students is rising. Using data from the Federal Reserve’s Survey of Consumer Finance from 2004 and 1989, the non-partisan organization Demos calculated that young adults between 18 and 24 have 22 percent higher credit card debt than their peers had in 1989.[2]

“Similarly, studies conducted by Nellie Mae show a significant rise in credit card usage among students. A 2005 report[3] done by Nellie Mae of students in college found that 76 percent of undergraduates had a credit card, as opposed to 67 percent in 1998; that 43 percent have four or more cards, as opposed to 27 percent in 1998; and that the average balance on student credit cards was $2,169, up from $1,879 in 1998.

“Perhaps of most concern, students’ use of credit cards to pay for tuition is also going up, even though federal student loans are generally available at lower rates and on more flexible repayment terms. In the 2001 GAO study, about 12 percent of undergrads said they used credit cards to pay for tuition. The 2005 Nellie Mae credit report study showed that figure doubling: 24 percent of undergrads used credit cards to pay tuition.

“These are the issues we will be looking at today. I look forward to the testimony.”

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[2]“ Generation Debt: Student Loans, Credit Cards, and their Consequences,” Winter 2007, Demos, at 3.
[3] “Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends” (Nellie Mae, May 2005)